Main Questions and Answers at the Credit Saison Financial Results Briefing for 1H FY2023

Q1.

(page. 29) Could you explain the reasons behind the decision to pay a special dividend?

A1.

The major reason behind the increase in the dividend is that we recorded approximately 20.0 billion yen in gain on negative goodwill as share of profit on investments accounted for using equity method. Although this is a non-cash gain, because it is recorded as share of profit on investments accounted for using equity method, we are making a significant upward revision to profit, and we wanted to return this profit to investors.

With regards to the dividend level, we fully discussed the level in light of our basic policy of providing stable and continuous dividend to shareholders while keeping in mind the enhancement of internal reserves as in the past. As a result of comprehensive discussion, we decided on a special dividend of 20 yen.

Q2.

(pages 28 and 29) I would like you to add something about the balance between the stable and continuous dividend policy and a dividend amount of 100 yen per share, including the special dividend of 20 yen. The dividend per share this time is 100 yen. Is it correct to consider this as a launch pad for next fiscal year and beyond?

A2.

On this occasion, there is a combination of the 80 yen ordinary dividend and the 20 yen special dividend, but this is a decision we have made at the present time, and we intend to continue discussions in the future.

Q3.

Could you explain the future relationship with Seven & i Holdings Co. Ltd.? In "Approaches to Realizing Management with Awareness of Capital Costs and the Share Price" on slide 29, you also mentioned you will work to reduce cross-shareholdings. Could you tell me about your thoughts going forward?

A3.

Various discussions are currently underway with the Seven & i Group with regard to Seven CS Card Service Co., Ltd., in light of the transfer of Sogo & Seibu Co., Ltd. to Fortress Investment Group LLC in September 2023. We will inform you as necessary as soon as any decision is made. Also no specific decisions have been made about the company's cross-shareholdings at the present time.

Q4.

(page 28) As of when is surplus capital approximately 50.0 billion yen? Could you confirm that it is after taking into account the allocation of capital to Brazil and Mexico? Also, if you have any sense of the scale of the inorganic growth investment pipeline, could you share it with us?

A4.

The figure was measured as of September 30, 2023. Based on the surplus capital at March 31, 2023, we believed that surplus capital will be around 50.0 billion yen, given the progress in the first half of the current fiscal year and the capital required for organic growth over the next one to two years. This figure is after the allocation of capital to Brazil and Mexico.

Q5.

(page 36) Credit costs have increased on both the consolidated and non-consolidated basis. Please explain your perception of the environment divided into Japan and overseas and the future outlook. Also, if there is any discussion about provision or reversal of the special allowance, I would like you to touch on it.

A5.

With regard to the environment in Japan, zero-zero loans, which have been reported in the media, have led to sudden bankruptcy and closure of leasing and credit guarantee businesses. Also, while there has been a slight increase in unauthorized use of credit cards, we have formed a project team to strengthen security. As the response is close to being completed in the first half of this fiscal year, we expect to see the effect in the second half.

Overseas, allowances have increased due to changes in India's Default Loss Guarantee (DLG) Guideline standards. In addition, the economic environment in Vietnam is very sluggish, and each company in the non-bank sector, including Credit Saison, is accumulating credit costs.

Although the circumstances are somewhat different, the impact of bad debts due to reopening the economy after the COVID-19 pandemic has become apparent both in Japan and overseas, and we would like to examine the reversal of the special allowance while monitoring progress.

Q6.

(page 36) Please could you confirm the factors for increase from the initial plan in the revised plan for credit costs. On the non-consolidated basis, credit costs have increased 3.6 billion yen from the initial plan. Is this due to the fact that you have taken a cautious view of the impact of the zero-zero loan bankruptcies, which you mentioned in your previous answer? Also, on the consolidated basis, credit costs have increased 6.2 billion yen, which means a 2.6 billion yen difference in the increase in credit costs on the non-consolidated and the consolidated basis. Is it correct to interpret this as meaning you have taken a cautious view of the environment in India and Vietnam, which you mentioned in your previous answer?

A6.

The main factors involved in the 3.6 billion yen increase in credit costs on the non-consolidated basis are the payment business and the lease business.

The majority of the 6.2 billion yen increase in credit costs on the consolidated business is the impact of increase in credit costs on the non-consolidated basis. The reason for this is that the non-consolidated credit costs of 3.6 billion yen calculated under Japanese GAAP is over 5.0 billion yen when converted to IFRS standards for consolidated accounting, with the majority of this being the impact of non-consolidated credit costs. We take into consideration future forecasts such as an increase in actual loan losses due to the current impact of zero-zero loans. Also, we have not made any significant additions for India and Vietnam.

Q7.

(page 25) My question concerns the alliance with Suruga Bank. It was disclosed that 350.0 billion yen in new loans will be executed over the next five years. What will be the burden of credit risk for the two companies? Pease explain how you envisage the balance sheet and credit risk control.

A7.

We refrain from disclosure of details, such as balance sheet usage. As part of our joint business development, we are also promoting exchanges of human resources, and are considering various initiatives with the aim of increasing transaction volume to 350.0 billion yen.

Q8.

(page 29) Including the special dividend, the dividend per share will be100 yen, which gives the impression that it has grown in scale to a certain extent. Are there any ideas about starting to pay an interim dividend?

A8.

We are not considering an interim dividend at the current point in time, but we will keep it in mind as an idea.

Q9.

(page 28) Please tell me about the impact of Seven CS Card Service Co., Ltd. on excess risk capital. What do you envisage in the event you were to buy it?

A9.

We are currently in discussions with the other party regarding Seven CS Card Service Co., Ltd. However the business plan of the other party has not yet been made public, and we are unsure how to proceed with the relationship with the department store. We believe there are three options: buy all the shares, sell all the shares, or proceed in the same manner as at present. However, at present, it is difficult to make a decision without seeing the other party's business plan.

As a long-term analysis of assets is needed to calculate risk capital, it gives an impression. However, the company currently calculates risk capital as an equity-method affiliate. Therefore, if it were to be incorporated as a wholly-owned subsidiary, the current surplus of 50.0 billion yen could expand a little.

Q10.

(page 36) Can you provide a supplementary explanation about the status of doubtful accounts, including whether the plan value for credit costs was revised because it was assumed at the beginning of the period that the reserve ratio would decline but it did not, or because the trend has changed to a phase of increase?

A10.

The impact from the risk of zero-zero loans appeared to a certain extent at the end of fiscal 2022, and the impact has become stronger this fiscal year, so we are taking a slightly stronger view of the risk. We had originally predicted that the reserve ratio would be maintained or increase slightly rather assuming a decline. However, In addition to zero-zero loans, there is also the impact of unauthorized use, and the impact has become even stronger than initially planned. As I told you earlier, we are taking measures to strengthen security with regard to unauthorized use, and we think this will have a restraining effect in the second half. However, based on current performance, we are taking a conservative outlook.

Q11.

(page 34) Please explain the reasons why the contribution to profit of India is almost flat and the contribution to profit of Vietnam has decreased compared to last year. I would also like to ask about the future outlook.

A11.

With regards to India, in addition to increased credit costs due to the regulatory change I mentioned earlier, there is the impact of upfront investment due to accelerated expansion of branch lending. At the end of September we reached 40 sites, which was the plan for the end of this fiscal year, and the number of employees increased from over 500 at the end of April to over 700 at the end of September, resulting in an increase in personnel expenses. As the business is in the growth phase, we allow upfront investment, which is a factor that pushes down profit, but we believe this is a temporary impact.

With regards to Vietnam, market conditions are deteriorating, and Credit Saison's NPL ratio remains relatively lower than other companies in the industry at around 7 to 8%. We will continue to monitor the situation closely, but we are operating under a very tight credit environment, so we expect to be able to head toward recovery from next fiscal year onward.

Q12.

(page 28) Am I correct in understanding that if internal and external factors improve, you will be able to implement a stock buyback in a flexible manner without waiting for the start of the new medium-term plan scheduled to be announced next fiscal year? Or will you announce a stock buyback and the new medium-term plan together at the same time?

A12.

There are a variety of internal and external factors, and the circumstances cannot be determined by Credit Saison alone. However, if these factors are improved, we would like to implement a stock buyback as soon as possible.

Q13.

(page 28) Does the implementation of a stock buyback if the factors improve mean that you will not move forward with a stock buyback unless there is improvement?

A13.

All I can say is that the Company would like to resolve the issue and move forward with it as soon as possible, and we hope to continue our efforts.

Q14.

(page 29) With regards to dividends, please explain the factors behind your emphasis on the fact that “20 yen is a special dividend” in your answer in A1-2. With approximately 50.0 billion yen in surplus capital, the total impact from the 20 yen increase in the dividend will be about 3.0 billion yen. Isn’t the dividend payout ratio excluding this negative goodwill around the market average?

A14.

On this occasion, I discussed the subject in terms of the special dividend, but Credit Saison has always maintained a policy of paying stable and continuous dividends, and we have continued this policy even when operating profit is in the red. There was a view that this dividend was small relative to surplus capital. However, Credit Saison’s basic policy is to pay stable and continuous dividends. Although we cannot make a commitment at this point in time, we would like to consider a base of 100 yen going forward.